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The Housing and Financial Crises, the Economy, and Public Policy Choices

Allen Sinai
Chief Global Economist
Decision Economics, Inc.
(New York • Boston • London)

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The Housing and Financial Crises, the Economy, and Public Policy Choices
by Allen Sinai*

The Housing and Financial Crises

After six years of economic expansion fueled by a boom in housing and in consumption, a corresponding boom in mortgage debt, credit and debt generally, and the volume of business done by an increasing number of bank-like financial intermediaries, the U.S. economy has fallen into a recession.

The housing boom is now a bust, a housing asset price bubble that accompanied the boom has burst, and all that had been built on the edifice of residential real estate and derived from U.S. housing has come tumbling down in the inevitable unwinding of the housing, housing finance, and speculative boom. Housing construction, housing finance, the levered financial instruments that were created and financial intermediaries, bank and nonbank, for which so much risk-taking and business was created are in recession or some sort of financial distress. Residential real estate as asset collateral for the debt and credit of lenders and borrowers—the "darling" of almost all as *the* asset of choice—and any debt derivatives or equity paper have become a "pariah."

Unfortunately, the declining values of housing and housing credit, negative impacts on the financial system, on consumer confidence, household wealth and the inability of consumers to draw on home equity for various purposes are continuing, contributing significantly to the recession and associated financial fallout. Declines in the values of stocks of companies and financial institutions involved in the housing boom also are continuing as all firms, financial institutions and households, directly, and indirectly tied to housing remain at considerable risk. The balance sheets of financial intermediaries are contracting and a number of them have sought new capital or failed. Credit within the financial system, financial institution-to-financial institution, has been difficult to obtain. And, a "run" on one financial institution, Bear Stearns, brought a managed failure to that situation. Additional failures remain possible, although more likely a matter of insolvency rather than illiquidity with the opening of the Federal Reserve discount window to Primary Dealers. The chances of an accident on liquidity bringing down a major financial institution are now much less.

Housing, Housing Finance, and the Economy—The Economy and Housing

As a consequence of the housing downturn (Table 1) and other factors the U.S. economy is in recession, the U.S. housing sector and U.S. financial system are in crisis, and taxpayer funds have been put at risk by the central bank and federal government, but still with an outcome that is not clear.

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*Chief Global Economist and President, Decision Economics, Inc. (DE).

Ripple effects from the housing collapse and U.S. economic downturn are reverberating through financial markets, credit, balance sheets, into the global economy, along with a growing risk of global recession. On recent economic data, the U.S. recession is deepening and widening, with an increasing array of key monthly economic indicators showing flat or declining activity. This includes increased jobs losses, a rising unemployment rate, flat to negative real retail sales and real consumption, a manufacturing recession as indicated by Purchasing Managers' Surveys, cutbacks in business production, inventories and capital expenditures, and threatening financial situations for a large number of states. Although real GDP has not been negative yet, this matters little given the economic weakness being shown in so wide a range of monthly data and on the anatomy and process of the recession as it unfolds.

The housing bust and biggest declines ever in published data on home prices (Table 1), the effects on consumer confidence and spending, the inability to draw on rising equity in homes, negative effects on business sales and profits, collapse of subprime and other credit, exposures in U.S. and other financial intermediaries to a huge amount of mortgage-related debt and weakened collateral values of newly created financial instruments, and now balance sheet contraction across a wide range of financial intermediaries can make the economic downturn, currently in its early stages, a severe one.

Housing was a major lever for the boom and now is a major lever for the economic downturn. As consumers and businesses cut back, the unemployment rate rises and rest-of-the-world economies slow in response to a weakened U.S. economy, the demand for housing and mortgage finance, already extremely depressed, could worsen even more, bringing second and third round negative effects for housing, credit, the U.S. economy, U.S. financial institutions, and the global economy.

The fallout on the economy and financial system from the housing downturn, declines in housing prices and in the value of real estate asset collateral, the burden of outstanding debt and interest payments on the debt, especially in a recession with rising unemployment, is very substantial. Defaults, delinquencies, foreclosures and bankruptcies related to housing are at record levels with credit tight or not easily available, within and outside of the financial system. Empty homes and distressed sales are numerous. Many individuals who might otherwise be able to afford payments on their homes cannot. Many financial institutions that had exposure to housing and housing finance are out of business or suffering losses. The new leveraged financial instruments which had become the source of large fees and commissions for many investment bank/brokerage firms and financial services providers no longer are so. And, the values of mortgages, mortgage-backed securities, collateralized debt obligations, mortgage derivatives in whole or in part, and other instruments that used rising prices on residential real estate as underpinning have collapsed, bringing a sizeable contraction in balance sheets and need for capital by many financial intermediaries, bank and nonbank. Some capital is being provided by Sovereign Wealth Funds (SWFs); some from pools of capital at other institutions or from investors.

Public Policy Choices

With all that has transpired, the U.S. financial system is very much impaired, if not broken; so is housing. Public policy choices must be made beyond those so far to cushion and prevent a further cascading of effects and even more of a cumulative downturn than has already occurred.

What might these choices be?

Certainly, in the U.S. low interest rates are a necessary condition to floor and reverse the downturn in housing and in credit. Interest rates, both short- and long-term, are a fundamental determinant for the valuation, or price, of housing. Recently, the Federal Reserve has moved quickly and resolutely in this direction. More interest rate reductions are likely. In principal, there is *some* low level of interest rates that could stop the declines in housing prices that are at the heart of the housing and financial crises. In some fundamental sense, low interest rates, under normal circumstances, can stop the declines of housing prices that are taking down the value of housing as collateral and as a source of ultimate value in so many derivative financial instruments and for those financial institutions whose balance sheets and businesses are tied to it.

But with the negative price dynamic of a bursting asset price bubble, the psychology associated with declining house price expectations could well overwhelm the fundamental help that lower interest rates provide. A huge overhang exists in the supply of housing and in mortgage finance instruments, relative to demand, suggesting that downward price pressure could continue for quite some time to bring additional declines in the values of housing asset collateral, rising debt-to-asset ratios for households, and continuing compromise in the balance sheets of households and those firms and institutions whose balance sheets, directly or indirectly, are tied to residential real estate.

A second choice, or line of defense, is aggregative fiscal policy measures such as tax cuts or increased government spending. The fiscal policy stimulus recently passed by the Congress and signed by the President provides one-time tax reductions to households and businesses. Although these may serve to cushion the overall economy from the consequences of the housing downturn and ongoing financial distress, they cannot get at the root cause of the housing and financial crises, which is too much available housing, too little demand and too large a supply of mortgage debt, mortgage derivative securities, and structured investment vehicles relative to the demand. There is a considerable amount of weak collateral, a lot of impaired investments, and a huge overbuild in housing. The negative housing and credit shock is reverberating through the economy as are the associated financial consequences. Unfortunately, the tax reductions are too small per household to deal with monthly payments that are basically unaffordable at newly reset mortgage interest rates and reduced home appraisal values. And, unfortunately, these tax reductions are only temporary. Any help likely will come from what initial surveys suggest, that much of the tax cuts will not be spent but instead used to save or pay down debt. Decision Economics, Inc. (DE) quantitative research shows that *permanent* tax reductions have triple the power for the economy and household spending compared with *temporary* tax cuts of the same magnitude.

Third, there are measures in the public policy arena involving the federal government or central bank that could be taken.[1] These can involve, directly or indirectly, risk to taxpayers' monies, and raise concern over moral hazard. But, taxpayer monies likely will be lost anyway, if only because of the lost federal government tax receipts from an economic downturn. Spending *some* taxpayer monies now to preempt and prevent a further cumulative downturn can be preferable, depending on how government funds are used and what conditions might be put on their application.

A fourth choice is to do nothing. Politically, this is virtually impossible in the current situation. For many Americans, owning a home is a lifetime dream and the value of their house is much, if not all, of family net worth. With so many abuses and so much laxity in supervision over what went on in housing, housing finance, subprime lending and borrowing, and the huge payouts to executives and workers in many financial intermediaries such as private equity firms and mortgage lending entities, the taxpaying public is justifiably enraged. Indeed, the unhappiness is such that public opinion is very much against *any* help at all to institutions such as Bear Stearns, or individuals who took on so much risk and where so many earned so much.

But, this is short-sighted! Doing nothing is essentially what happened in the early 1930s. A hands-off attitude by government and the central bank was a major contributor to the Great Depression. Doing nothing can be a roll of the dice—risking the unknown effects of serially correlated

[1] Many already have been taken. FHA-insured loans now can be as high as $729,750, compared with $417,000 before. The Federal Home Loan Banks (FHLBB) have been authorized by the Federal Housing Finance Board to make investments in mortgage-backed securities up to 600% of capital compared with 300% previously. Capital surplus requirements have been reduced for FNMA and the FHLMC, permitting many more conforming mortgage loans to be insured. And, the conforming loan limit for loans insured by FNMA and FHLMC also has been raised to $729,750. These measures ultimately involve taking some risk with taxpayer money, as well as increasing the moral hazard from the explicit or implied increased government insurance.

The Bush Administration initiated the FHA Secure refinance and Hope Now Alliance freeze programs and may support some of the other initiative to help housing.

negative consequences in the financial markets, for financial institutions, and for the economy. Indeed, although ultimately, in theory, downturns in the economy and finance can be self-correcting, in practice this is not easily possible with losses along the way and unintended consequences potentially extremely severe and even possibly irreversible.

In the public policy arena, one question is the risk and uncertainty of one action versus another, i.e., the costs versus the benefits of alternative actions as best can be seen at the time. Leaving housing alone and doing little, or nothing, through the potential role of the federal government defeats one of the purposes for the federal government which is to be a source of support in times of stress. Economic security is really not so different from military security in terms of potential negative effects on the economy and the lives and well-being of Americans.

The declines in housing and in home prices, although from unsustainably high levels that admittedly were driven by considerable aggressive and irresponsible risk-taking and lax regulation and supervision, does not mean that the "casualties of capitalism," either individual households or, in the aggregate, the economy itself through an economic downturn, and then as a secondary effect, losses of jobs and incomes, should not be supported, or cushioned, by judicious and efficient use of public money and federal government intervention.

Frank-Dodd Initiative—Minimal Taxpayer Funding at Low Risk for Potentially High Returns and Homeowner Retention

One of the public policy measures to consider is the proposal of House Financial Services Committee Chairman Barney Frank and Chair of the Senate Banking Committee, Christopher Dodd.

This potential legislation would use the Federal Housing Administration (FHA) to help stabilize housing and to facilitate homeownership retention and has considerable promise, risking little in taxpayer monies for a potentially large volume of refinanced and restructured mortgages insured by the FHA and tailored to the affordability profile of qualified borrowers.

Borrowers could finance 90% of the *current* appraised value of the property on a well-underwritten FHA-lender approved loan at a market rate of interest that was evaluated as affordable.

Lenders would have to write down the remaining principal on the original mortgage loan to 85% of the *current* appraised value, but in return would receive this amount to pay off the original and discounted mortgage to another lender or mortgage-service provider. The lender would put 5% into an insurance reserve at the FHA. The borrower would pay a small insurance fee into the FHA. The government would retain a small lien on the loan.

In this proposal, lenders would do better by not having to deal with foreclosure or the refusal or failure of borrowers to make monthly payments. Borrowers would keep their home. The FHA-approved lender would take the loan, now reconfigured, restructured, and refinanced in a reasonable fashion.

Other conditions would be placed on the lenders and borrowers, including:

- only the principal residence, or first home, would be eligible;
- the existing loan being refinanced would have to be originated between January 1, 2005 and July 1, 2007;
- mortgage holders/investors/lenders would accept proceeds of the new loan as payment in full on the old loan;
- the write-down on current loans from current appraised values to no more than 85% of the property's current appraised value would have to be accepted by the original mortgage holders. The financial benefits from not having the costs of foreclosure on the loan and potential loss of principal would appear to be considerable;
- all loans guaranteed by the FHA would be subject to stringent underwriting standards and full disclosure of the financial position of the borrower;
- the government would retain a small second lien on the property so that when the borrower sold the home or refinanced the loan, an exit fee would be paid from any profits approximating 3% of the original FHA loan balance or a declining percentage of any profits.

The plan would also provide for $10 billion to $20 billion in loans and grants to states for the purchase and rehabilitation of foreclosed homes with a goal to occupy them as soon as possible.

This enhanced FHA program provides benefits to all, essentially some penalties to all, but retires poorly collateralized mortgage indebtness or mortgage-backed securities in return for a currently viable mortgage instrument for the borrower.

The program has considerable appeal and very likely would raise the demand for restructured and refinanced mortgages and reduce the volume of mortgage loans that were not viable under current housing market conditions. This is an essential element in clearing the market from an excess supply of weakly collateralized loans. So long as the financial system has large volumes of bad loans, credit restraint within and outside the financial system will persist.

Retaining homes rather than foreclosure or bankruptcy would reduce the supply of vacant homes for sale, helping to alleviate the overhang of inventory relative to demand, essential to eventually floor the declines in housing prices. When housing prices stop declining, the crisis may be over.

The balance sheets of financial institutions involved in mortgage lending would be enhanced by the "swap" of badly collateralized mortgage or mortgage-backed product for new restructured mortgage loans that were well-underwritten. Mark-to-market values of the new stock of mortgage loans would be enhanced by the FHA guarantees which, in turn, would partially be financed by payments from lenders and from borrowers into an insurance fund reserve.

The estimated costs of the program are administrative, on the order of about $350 million with $10 billion borrowed by the FHA in order to provide funding through loans and grants to states for the purchase and rehabilitation of vacant, foreclosed homes and then a reoccupation of them. This part of the proposal would serve to remove housing supply from the market, helping to reestablish a balance between demand and supply and the ultimate solution for the housing crisis, the flooring of home prices and end to declining values of residential real estate and of the collateral backing so much of the mortgage finance products that are being utilized.

On a microeconomic basis, many homeowners, estimated at perhaps one million to two million, would benefit and be able to retain their homes. Lenders would end up with well-backed and better collateralized mortgages than previously. The government, at little cost, would have managed and intervened to achieve what negotiations between borrower and lender could not and all would be risking some equity but with a potential for gain upon recovery in the housing market and in housing prices.

The proposal does have considerable appeal. But, there are shortcomings.

First, to realize maximum benefit to housing, homeownership retention, and to the economy, lenders and borrowers still would have to apply and agree. This may not occur to the degree envisioned.

Second, the program would be limited to first homes only, leaving out quite a bit of distressed property, under-collateralized mortgage-backed securities, and mortgage weakness for those who have second homes. Not all vacation homes are speculative or unessential.

Third, the net of potential participants appears fairly low, constrained by the dates of mortgage origination that span only 2005, 2006 and 2007. Mortgage resets and restructuring could probably apply also to 2004 and 2008. Although the demand for mortgages and housing likely would increase and the supply of mortgages and housing diminish, price declines could still occur making the current appraised values upon which the restructuring was based out-of-date some time in the future and mortgages that might still have negative equity, despite all of the actions taken.

Fourth, the macroeconomic effects, while probably noticeable, likely would be very small and not sufficient to diminish enough the supplies of housing and of mortgage-backed financial instruments that overhang housing and the financial system and are contributing to declining home prices and declining values of credit and debt. It is these declining values that are contributing to balance sheet contraction of financial institutions and tight credit availability.

However, as one approach of federal government action to intervene and cushion the fallout on housing and in mortgage finance from the housing bust and declining home prices, the Frank-Dodd proposal should be legislated and passed after further study and some modifications.

Some Concluding Perspectives

The U.S. economy is in a recession, with the proximate cause a housing downturn and bust after a huge boom and the bursting of a housing price asset bubble.

The severe downturn in housing and decline in housing prices have helped bring down aggregate consumer spending, some 71% of real GDP, in response to declining real household wealth, particularly in real estate and equities; the inability anymore to draw on rising housing equity through various forms of cash-out financing; through a lack of realized capital gains on housing; and through the damage to consumer sentiment from declining home values. The U.S. downturn now is centered on consumption and is being accompanied by derivative cutbacks in business hiring, business capital spending, in production and in inventories.

In addition, the collapse of mortgage credit, initially in subprime lending, and the declining values of financial instruments ultimately derived from and tied to the value of residential real estate have caused a contraction in the balance sheets of numerous financial intermediaries, a credit and balance sheet crunch that is restraining spending across-the-board.

DE quantitative research shows the propensity to consume cash-out financing, capital gains on housing, and household wealth to be quite sizeable—$0.26 per $1.00 of reduction in cash-out financing, $0.25 decline in spending on reduced capital gains realizations, and nearly a $0.06 decline ($0.03 to $0.05 for reductions in real net estate values).

Estimated declines in the volume of cash-out financing over the past year, approximately about $150 billion, in unrealized capital gains a fall of $200 billion, and reductions in real household wealth of nearly $500 billion. Lost growth in consumption spending is about one percentage point. Given the lags and the effects for these determinants of consumption, the bulk of the negative effects is in train now.

The housing boom and rising home prices were a major source of the economic upturn in 2003 to 2006, but now are a major source for the economic downturn. In addition, the financial fallout from the housing declines, in activity and in prices, operating through a wide range of financial intermediaries, has imposed a negative credit and debt shock on the economy which is more than overwhelming the possible effects from the reductions of interest rates that have occurred in recent months.

A recession economy, rising unemployment, tight credit, and balance sheet contraction for financial intermediaries could reverberate back to depress further the demand for housing and reduce housing prices more on the continuing excesses of supplies relative to demands. A financial system clogged with badly collateralized mortgage and mortgage-backed debt will continue to be under pressure and as the recession plays out through other areas of credit could engender insolvency for some major financial institutions.

Housing thus is in crisis; so is the U.S. financial system. Herein lies a role for public policies to cushion, limit, and prevent a further intensification of the housing downturn and all that it might entail.

One such public policy is the Frank-Dodd proposals to restructure and refinance a considerable volume of mortgages whose reset would lead to foreclosure for borrowers that otherwise might be able to make payments on a more realistic loan with reduced principal.

The plan uses participation by lenders, borrowers, and an enhanced FHA to bring about, at little cost to the federal government, restructured finance that would permit qualified borrowers to make required payments and keep their home.

The outstanding principal on an existing loan would have to be written down and accepted by lenders to 85% of the current appraised value and a new loan made to a borrower for approximately 90% of the value for the housing collateral. The original lenders for the unsupported loan would take the new loan, underwritten to make sure that the borrower has the ability to pay, in exchange for the old loan at 85% of the new lower appraised value of the home. The five percentage point difference would be put into an FHA insurance reserve by the lender and the borrower would pay a small fee into the insurance fund. FHA could guarantee, or insure, up to $300 billion of mortgage loans in this manner, but better-qualified and safer loans than those held previously that probably would not be repaid at all on a foreclosure or bankruptcy.

The cost to the government would be administrative, estimated at $350 million to perhaps $500 million, and $10 billion-or-so in funds to be borrowed and channeled into states for use in buying-up foreclosed property. The substitution of good collateral for bad, the acceptance of a markdown in principal to be repaid by a lender or servicers, the lower loan-to-value ratio for the borrower, and the potential “skin-in-the-game” for all three participants makes this program shared risk and no bailout of anyone. The federal government role is as insurer of last resort and to facilitate the transaction and restructuring for lender and borrower, a proper function of the federal government. On subsequent gains in the value of housing, or losses, all participants would share to some extent. The ability of the FHA to insure a much larger volume of mortgages than the cost to the federal government makes this a highly leveraged use of government funding.

There are other possibilities involving a role for the federal government.

In 1991, the Reconstruction Finance Corporation (RFC) was established to sop up foreclosed property on the collapse that occurred in the savings and loan industry. The government bought up property and eventually sold it off into the market.

Currently, a new entity, or existing agency like the FHA, could directly purchase mortgages on which payments were insufficient and where the value of the underlying property was far less than the mortgage itself, restructuring the mortgages and reselling them to another institution in the private sector at a discount, or insuring new mortgage loans of lenders under the supervision of the agency, thus cutting the supply of bad collateral and increasing the demand for new, affordable mortgage loans tailored to the housing and mortgage market.

While this would be a more direct intervention by the federal government than enhancing the FHA, such an agency could seek capitalization from government funds and private sector funds from those institutions who stood to gain more on maintaining homeowners in their homes and restructuring mortgages rather than foreclosures, bankruptcy, or nonpayment of the principal or monthly payments on the mortgage loans.

Public policy and intervention by the federal government, long eschewed by free market proponents and many policymakers, certainly seems appropriate at times like this, where there are market failures, or crises, not easily handled by the private sector whose individual interests may not correspond to the public welfare at-large.

Table 1
Defining the Housing Boom/Bust
(2000-to-Date)

	Trough in 2000-2001	Date of Trough	Peak in 2005-2006	Date of Peak	Pct. Change from Trough	Trough in 2007-2008	Date of Trough	Pct. Change from Peak
Home Sales (1000s)								
New Single-Family	793	Jun-00	1389	Jul-05	75.2	590	Feb-08	-57.5
Existing Single-Family	4520	Dec-00	6340	Sep-05	39.4	4320	Dec-07	-31.9
Existing Condo and Co-op Sales	543	May-00	934	Jan-05	72.0	560	Dec-07	-40.0
Inventories (1000s, Ratio, %)								
New Homes Offered for Sale/Sales	0.384	Jun-00	0.287	Aug-03	-25.3	0.809	Dec-07	181.9
Existing Homes Offered for Sale/Sales	0.409	Jan-00	0.302	Jan-05	-26.2	0.853	Oct-07	182.5
Months Supply of New Homes for Sale	3.7	Feb-01	7.4	Jul-06	100.0	7.2	Jan-07	-2.7
Months Supply of Existing Homes for Sale	4.1	Dec-01	7.2	Jul-06	105.6	6.5	Jan-07	-9.7
Housing Prices ($s)								
New Single-Family Homes (Med.)	160,100	Jun-00	257,000	Apr-06	64.0	225,600	Jan-08	-14.1
Existing Single-Family Homes (Med.)	139,600	Jan-00	230,900	Jul-06	65.4	193,900	Feb-08	-16.0
Case-Shiller	100	Jan-08	206.52	Jul-06	106.5	180.65	Jan-00	-12.5
Housing Starts (1000s)								
Total Starts	1463	Jul-00	2292	Jan-06	56.7	1000	Dec-07	-56.4
Single-Family Starts	1142	Jul-00	1837	Jan-06	60.9	707	Feb-08	-61.5
Multi-Family Starts	281	Aug-01	455	Jan-06	61.9	218	Dec-07	-52.1
Employment Related to Housing (1000s)								
Manufactured and Mobile Homes	50.6	Feb-01	50.5	Apr-06	-0.2	34.9	Feb-08	-30.9
Residential Building	743.0	May-01	1037.3	Aug-06	39.6	835.7	Feb-08	-19.4
Furniture and Home Furniture Stores	533.4	Jul-01	611.6	Dec-06	14.6	562.4	Mar-08	-8.0
Building Material & Garden Equipment & Supplies Dealers	1076.0	Jan-00	1389.3	May-06	29.1	1204.9	Feb-08	-13.3
Mortgage & Nonmortgage Loan Brokers	58.6	Jan-01	148.2	Apr-06	152.9	111.9	Dec-07	-24.5
Real Estate Credit	213.7	Jan-01	358.5	Oct-05	67.8	251.4	Dec-07	-29.9

Sources: Census Bureau, National Association of Realtors, Bureau of Labor Statistic.

Table 2
U.S. Economic Prospects

Economy (% Chg., Annualized, Unless Otherwise Indicated)	**2007:4**	**2008:1**	**2008:2**	**2008:3**	**2008:4**	**Annual** 2006	2007	2008	2009
Real GDP	0.6	0.2	-0.5	2.3	1.7	2.9	2.2	1.3	1.8
Consumption	2.3	0.5	-0.4	2.9	2.2	3.1	2.9	1.4	1.9
Residential Construction	-7.0	-7.6	-3.9	-2.9	-2.1	-4.6	-17.0	-19.9	-0.6
Business Fixed Investment	6.0	-0.6	-1.0	1.1	-1.0	6.6	4.7	2.6	-0.3
Inventories ($ Bils.)	-18.3	-16.4	-18.4	-23.0	-18.2	40.3	4.6	-19.0	-10.2
Real Net Exports ($ Bils.)	-503.2	-492.2	-485.2	-474.5	-473.1	-624.5	-555.6	-481.3	-473.7
Federal Government	0.5	1.4	1.4	1.8	1.7	2.2	1.7	2.3	1.7
State and Local Government	2.8	1.9	1.5	1.2	1.8	1.6	2.2	2.0	1.5
Inflation (%)									
CPI-U	5.0	4.5	4.3	3.6	2.9	3.2	2.9	4.1	3.2
Core Consumption Deflator	2.5	2.5	2.4	2.3	2.2	2.3	2.1	2.3	2.1
Wages	4.6	3.7	5.0	5.5	5.9	3.9	5.0	4.3	4.2
Employment and Unemployment									
Nonfarm Payroll (1000s, Chg.)	241	-232	-263	-175	-192	2,099	1,096	-1.357	-0.521
Household Survey (1000s, Chg.)	-49	-242	-307	-352	-150	3,171	262	-1.051	-0.875
Unemployment Rate (%)	4.8	5.0	5.2	5.4	5.6	4.6	4.6	5.3	5.8
Interest Rates (%)									
Federal Funds	4.31	3.06	1.92	1.79	1.79	4.96	4.93	2.14	3.00
3-Month Treas.	3.46	2.07	1.55	1.80	1.86	4.84	4.46	1.82	2.64
2-Yr. Treas.	3.47	2.01	1.75	1.86	2.00	4.81	4.35	1.91	3.16
10-Yr. Treas.	4.25	3.55	3.80	4.06	4.18	4.79	4.63	3.90	5.03
30-Yr. Mortgage	6.22	5.92	6.21	6.44	6.54	6.40	6.34	6.28	6.75
Adj. Mtg.	5.55	5.11	5.01	4.97	5.35	5.54	5.56	5.11	5.75
Housing and Housing Prices									
Housing Starts (Mils.)	1.151	1.059	0.982	1.007	1.054	1.812	1.343	1.025	1.209
New Home Sales (Mils.)	0.656	0.591	0.565	0.550	0.575	1.049	0.774	0.570	0.620
Existing Home Sales (Mils.)	4.387	4.186	4.037	3.991	4.075	5.703	4.958	4.072	4.250
New Home Prices (Med., 1000s)	236.5	234.9	214.7	198.5	191.6	243.1	243.6	209.9	201.5
Existing Home Prices (Med., 1000s)	205.7	195.6	191.2	185.4	176.1	221.9	215.5	187.1	180.4
Housing Determinants									
Affordability Index (higher means housing is less affordable)	0.141	0.133	0.131	0.125	0.116	0.153	0.146	0.127	0.120
Household Real Wealth (% Chg. Year Ago)	0.1	-3.5	-4.0	-4.6	-3.5	5.4	0.1	-3.9	0.0
University of Michigan Index of Cons. Sentiment	77.1	72.9	69.0	67.2	70.4	87.3	86.9	69.88	71.7
Real Disposable Income ($ Bils.)	8695.2	8724.8	9057.9	8847.1	8861.4	8396.9	8654.6	8872.8	9079.5
Federal Budget Deficit, Unified ($ Bils.)	-105.5	-213.8	27.1	-132.9	-163.9	-248.2	-162.8	-435.1	-505.4

Source: Decision Economics, Inc. (DE)